

**CITY OF CANTON**

**AUDIT REPORT**

**DECEMBER 31, 2009**

**CITY OF CANTON**  
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900 Winchester Drive  
Pierre, SD 57501  
(605) 940-1284  
glarsoncpa@pie.midco.net

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

City Commission  
City of Canton  
Canton, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component unit of the City of Canton, South Dakota as of December 31, 2009, and for the year then ended, and have issued my report thereon dated March 19, 2010. My report was modified because of a scope limitation concerning the component unit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance

with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency described in the accompanying Schedule of Current Audit Findings as Number 2009-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

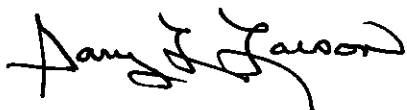
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2009-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Canton's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings. I did not audit the City of Canton's response, and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Canton, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.



March 19, 2010

# Gary L. Larson, CPA

900 Winchester Drive  
Pierre, SD 57501  
(605) 940-1284  
glarsoncpa@pie.midco.net

## INDEPENDENT AUDITOR'S REPORT

City Commission  
City of Canton  
Canton, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, the aggregate remaining fund information and the aggregate discretely presented component unit of the City of Canton, South Dakota, as of December 31, 2009, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canton's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as noted in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

I was unable to obtain audited financial statements supporting the financial activities of the Canton Housing and Redevelopment Commission, nor was I able to satisfy myself as to those financial activities by other auditing procedures. Those financial activities are included in the component unit column and represent 100% of the assets and revenues of the component unit column.


Since I was unable to satisfy myself as to the reported net assets and activities of the component unit, as noted in the previous paragraph, the scope of my work was not sufficient to enable me to express and I do not express, an opinion on the discretely-presented component unit.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota, at December 31, 2009 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Governmental Auditing Standards, I have also issued my report dated March 19, 2010 on my consideration of the City of Canton's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 51 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City of Canton has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



March 19, 2010

**CITY OF CANTON  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	TOTAL
<b>ASSETS:</b>			
Cash and cash equivalents	\$1,472,435	\$1,696,581	\$3,169,016
Investments	513,750	0	513,750
Receivables	157,742	211,539	369,281
Inventories	42,724	129,470	172,194
Prepaid expenses	17,857	3,674	21,531
Other:			
Deposits, restricted	67,416	0	67,416
Investments, restricted	0	44,500	44,500
Notes receivable	0	20,000	20,000
Capital assets:			
Land and construction in progress	336,655	381,295	717,950
Other capital assets, net of depreciation	2,704,932	3,806,304	6,511,236
<b>TOTAL ASSETS</b>	<b>\$5,313,511</b>	<b>\$6,293,363</b>	<b>\$11,606,874</b>
<b>LIABILITIES:</b>			
Accounts payable	\$52,612	\$79,157	\$131,769
Other current liabilities	29,426	48,744	78,170
Noncurrent liabilities:			
Due within one year	32,837	100,100	132,937
Due in more than one year	44,001	1,040,579	1,084,580
<b>TOTAL LIABILITIES</b>	<b>158,876</b>	<b>1,268,580</b>	<b>1,427,456</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	3,034,300	3,054,908	6,089,208
Restricted for:			
Insurance	67,416	0	67,416
Debt service	0	44,500	44,500
Unrestricted	2,052,919	1,925,375	3,978,294
<b>TOTAL NET ASSETS</b>	<b>5,154,635</b>	<b>5,024,783</b>	<b>10,179,418</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$5,313,511</b>	<b>\$6,293,363</b>	<b>\$11,606,874</b>

The accompanying notes to financial statements  
are an integral part of this statement.

Component Unit
\$112,255
204,584
7,210
\$0
1,495
0
0
0
25,811
163,148
<u>\$514,503</u>

\$23,490
15
0
0
<u>23,505</u>

188,959
0
0
302,039
<u>490,998</u>
<u>\$514,503</u>



**CITY OF CANTON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$396,038	\$120,930	\$0
Public safety	413,837	14,102	1,473
Public works	550,465	27,242	0
Health and welfare	30,556	475	0
Culture and recreation	378,563	40,241	0
Conservation and development	51,547	0	0
*Interest on long-term debt	403	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,821,409</b>	<b>202,990</b>	<b>1,473</b>
Business-type Activities:			
Liquor	783,273	780,729	0
Water	359,425	443,691	0
Sewer	341,688	444,727	0
Airport	80,353	48,233	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,564,739</b>	<b>1,717,380</b>	<b>0</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$3,386,148</b>	<b>\$1,920,370</b>	<b>\$1,473</b>
COMPONENT UNIT:			
Housing and Redevelopment Commission	\$379,523	\$69,195	\$315,553

\* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

**GENERAL REVENUES:**

Property taxes  
Sales taxes  
State shared revenues  
Unrestricted investment earnings  
Other general revenues

**TRANSFERS**

Total General Revenues and Transfers  
Change in net assets

Net Assets-beginning, previously reported  
Corrections of capital assets  
Net Assets-beginning, restated

**NET ASSETS-ending**

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total	Component Unit
(\$275,108)	\$0	(\$275,108)	\$0
(398,262)	0	(398,262)	0
(523,223)	0	(523,223)	0
(30,081)	0	(30,081)	0
(338,322)	0	(338,322)	0
(51,547)	0	(51,547)	0
(403)	0	(403)	0
(1,616,946)	0	(1,616,946)	0
0	(2,544)	(2,544)	0
0	84,266	84,266	0
0	103,039	103,039	0
0	(32,120)	(32,120)	0
0	152,641	152,641	0
(\$1,616,946)	\$152,641	(\$1,464,305)	\$0
\$0	\$0	\$0	\$5,225
1,044,986	0	1,044,986	0
733,026	0	733,026	0
81,443	0	81,443	0
38,885	2,524	41,409	12,741
23,337	0	23,337	0
(25,700)	25,700	0	0
1,895,977	28,224	1,924,201	12,741
279,031	180,865	459,896	17,966
4,801,493	4,625,991	9,427,484	473,032
74,111	217,927	292,038	
4,875,604	4,843,918	9,719,522	473,032
\$5,154,635	\$5,024,783	\$10,179,418	\$490,998

**CITY OF CANTON**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$1,467,165	\$5,270	\$1,472,435
Accounts receivable	32,939	72	33,011
Taxes receivable-			
Delinquent	23,503	0	23,503
Special assessments receivable-			
Current	1,109	0	1,109
Deferred	2,218	0	2,218
Due from other governments	97,901	0	97,901
Investments	500,000	13,750	513,750
Supply inventory	42,724	0	42,724
Deposits	67,416	0	67,416
Prepaid expenses	17,857	0	17,857
<b>TOTAL ASSETS</b>	<b>\$2,252,832</b>	<b>\$19,092</b>	<b>\$2,271,924</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$52,612	\$0	\$52,612
Accrued wages	29,426	0	29,426
Deferred revenue	26,830	0	26,830
<b>Total Liabilities</b>	<b>108,868</b>	<b>0</b>	<b>108,868</b>
<b>FUND BALANCES:</b>			
Reserved for deposits	67,416	0	67,416
Reserved for inventory	42,724	0	42,724
Unreserved:		0	0
Designated for capital outlays	967,900	0	967,900
Undesignated	1,065,924	0	1,065,924
Undesignated-Special Revenue	0	19,092	19,092
<b>Total Fund Balance</b>	<b>2,143,964</b>	<b>19,092</b>	<b>2,163,056</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$2,252,832</b>	<b>\$19,092</b>	<b>\$2,271,924</b>

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF CANTON**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2009**

Total Fund Balances-Government Funds	\$2,163,056
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,041,587
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Long-term liabilities, including financing leases payable, accrued leave and other post employment benefits are not due and payable in the current period and therefore are not reported in the funds	(76,838)
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Property taxes and special assessments receivable are reported in the period to be financed by the property tax levy or special assessment for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>26,830</u>
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Net Assets-Governmental Funds	<u><u>\$5,154,635</u></u>
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The accompanying notes to financial statement are an integral part of this statement.

**CITY OF CANTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$1,049,604	\$0	\$1,049,604
General sales taxes	733,026	0	733,026
Licenses and permits	10,334	0	10,334
Intergovernmental Revenue-			
Federal grants	1,473	0	1,473
State shared revenues	81,443	0	81,443
County shared revenues	10,015	0	10,015
Charges for goods and services-			
General government	120,930	0	120,930
Public safety	2,676	0	2,676
Highways and streets	14,246	0	14,246
Sanitation	13,002	0	13,002
Health	475	0	475
Culture and recreation	28,568	11,674	40,242
Fines and Forfeits			
Court fines and costs	1,092	0	1,092
Miscellaneous Revenue			
Interest earned	38,885	0	38,885
Contributions	2,705	0	2,705
Special assessments	1,103	0	1,103
Other	10,618	0	10,618
Total Revenue	\$2,120,195	\$11,674	\$2,131,869

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF CANTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$20,310	\$0	\$20,310
Executive	94,317	0	94,317
Elections	1,422	0	1,422
Financial administration	236,997	0	236,997
Other	29,177	0	29,177
Public Safety			
Police	344,933	0	344,933
Fire	49,201	0	49,201
Public Works			
Highways and streets	455,800	0	455,800
Sanitation	55,475	0	55,475
Health and Welfare			
Health	30,556	0	30,556
Culture and Recreation			
Recreation	101,313	0	101,313
Parks	109,070	0	109,070
Libraries	118,244	8,896	127,140
Conservation and development			
Economic opportunity	51,547	0	51,547
Debt Service	2,304	0	2,304
Capital Outlay	84,349	0	84,349
Total Expenditures	<u>1,785,015</u>	<u>8,896</u>	<u>1,793,911</u>
Excess of Revenues Over (Under) Expenditures	335,180	2,778	337,958
Other Financing Sources (Uses):			
Transfer-out	<u>(25,700)</u>	<u>0</u>	<u>(25,700)</u>
Net Change in Fund Balances	309,480	2,778	312,258
FUND BALANCE, JANUARY 1, 2009	<u>1,834,484</u>	<u>16,314</u>	<u>1,850,798</u>
FUND BALANCE, DECEMBER 31, 2009	<u><u>\$2,143,964</u></u>	<u><u>\$19,092</u></u>	<u><u>\$2,163,056</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**CITY OF CANTON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net Changes in Fund Balances-Total Governmental Funds	\$312,258
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(53,731)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,901
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Property tax and special assessment revenues are reported in the period to be financed by the property tax levy or special assessment for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	(5,729)
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Governmental funds do not reflect the change in accrued leave, or OPEB but the statement of activities reflects the changes through expenditures	24,332
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Change in Nets Assets of Governmental Activities	<u><u>\$279,031</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF CANTON**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	<u>ENTERPRISE FUNDS</u>		
	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$396,640	\$618,133	\$645,940
Accounts receivable	83,601	53,679	73,757
Inventory	0	111,480	15,414
Prepaid expenses	0	2,025	1,649
<b>Total Current Assets</b>	<u>480,241</u>	<u>785,317</u>	<u>736,760</u>
<b>Other Assets:</b>			
Restricted investments	0	14,833	29,667
Note receivable	20,000	0	0
<b>Total Other Assets</b>	<u>20,000</u>	<u>14,833</u>	<u>29,667</u>
<b>Capital Assets:</b>			
Land	600	10,000	37,990
Buildings	60,069	20,602	65,893
Improvements other than buildings	0	2,822,241	2,497,329
Machinery and equipment	7,987	150,062	176,449
Accumulated Depreciation	(45,379)	(1,037,279)	(1,157,211)
Construction-in-progress	0	0	263,851
<b>Total Capital Assets</b>	<u>23,277</u>	<u>1,965,626</u>	<u>1,884,301</u>
<b>TOTAL ASSETS</b>	<u><u>\$523,518</u></u>	<u><u>\$2,765,776</u></u>	<u><u>\$2,650,728</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.



Airport Fund	Total
\$35,868	\$1,696,581
502	211,539
2,576	129,470
0	3,674
38,946	2,041,264
0	44,500
0	20,000
0	64,500
68,854	117,444
0	146,564
691,424	6,010,994
65,914	400,412
(511,797)	(2,751,666)
0	263,851
314,395	4,187,599
\$353,341	\$6,293,363

**CITY OF CANTON**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$64,972	\$8,584	\$5,232
Accrued wages	0	2,416	2,233
Customer deposits	0	44,095	0
Bonds payable current:			
Revenue	0	37,625	58,481
Accrued leave-current	0	1,997	1,997
<b>Total Current Liabilities</b>	<b>64,972</b>	<b>94,717</b>	<b>67,943</b>
Non-current Liabilities:			
Bonds payable:			
Revenue	0	448,167	588,418
Accrued leave payable	0	1,997	1,997
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>450,164</b>	<b>590,415</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	23,277	1,479,834	1,237,402
Restricted net assets:			
Restricted for debt service	0	14,833	29,667
Unrestricted net assets	435,269	726,228	725,301
<b>Total Net Assets</b>	<b>458,546</b>	<b>2,220,895</b>	<b>1,992,370</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$523,518</b>	<b>\$2,765,776</b>	<b>\$2,650,728</b>

The accompanying notes to financial statements are an  
integral part of this statement.

Airport Fund	Total
\$369	\$79,157
0	4,649
0	44,095
0	96,106
0	3,994
369	228,001
0	1,036,585
0	3,994
0	1,040,579
314,395	3,054,908
0	44,500
38,577	1,925,375
352,972	5,024,783
\$353,341	\$6,293,363

**CITY OF CANTON**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
OPERATING REVENUES:			
Charges for goods and services	\$762,647	\$443,691	\$444,727
Lottery sales	18,082	0	0
Total Operating Revenue	780,729	443,691	444,727
OPERATING EXPENSES:			
Personal services	41,923	90,671	85,269
Other current expense	51,066	185,493	166,500
Cost of goods sold	687,728	0	0
Depreciation	2,556	65,091	65,299
Total Operating Expenses	783,273	341,255	317,068
Operating Income (Loss)	(2,544)	102,436	127,659
Non-operating Revenue (Expense)			
Interest earned	0	2,310	214
Interest expense	0	(18,170)	(24,620)
Total Non-operating Revenue (Expense)	0	(15,860)	(24,406)
Income (Loss) before Transfers	(2,544)	86,576	103,253
Transfers-in	0	0	0
Change in Net Assets	(2,544)	86,576	103,253
NET ASSETS, BEGINNING, previously stated	453,595	1,957,894	1,810,945
Correction (note 5)	7,495	176,425	78,172
NET ASSETS, BEGINNING, as restated	461,090	2,134,319	1,889,117
NET ASSETS, ENDING	\$458,546	\$2,220,895	\$1,992,370

The accompanying notes to financial statements are an  
integral part of this statement.

Airport Fund	Total
\$48,233	\$1,699,298
0	18,082
48,233	1,717,380
0	217,863
60,263	463,322
0	687,728
20,090	153,036
80,353	1,521,949
(32,120)	195,431
0	2,524
0	(42,790)
0	(40,266)
(32,120)	155,165
25,700	25,700
(6,420)	180,865
403,557	4,625,991
(44,165)	217,927
359,392	4,843,918
\$352,972	\$5,024,783

**CITY OF CANTON**  
**STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$746,852	\$468,740	\$442,474
Receipts for interfund services	0	2,066	833
Payments to suppliers	(689,249)	(158,281)	(132,256)
Payments to employees	(54,753)	(102,389)	(96,794)
Payments for interfund services	(25,374)	(35,000)	(35,000)
Net Cash Provided by Operating Activities	(22,524)	175,136	179,257
Cash Flows from Noncapital Activities:			
Operating transfers-in	0	0	0
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	(10,877)	(7,603)	(277,176)
Principal paid on capital debt	0	(36,908)	(57,619)
Interest paid on capital debt	0	(18,170)	(24,620)
Cash Flows from Investing Activities:			
Cash received from interest	0	2,310	214
Net Increase (Decrease) in Cash and Cash Equivalents	(33,401)	114,765	(179,944)
Cash and Cash Equivalents Beginning of Year	430,041	503,368	825,884
Cash and Cash Equivalents End of Year	\$396,640	\$618,133	\$645,940
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (loss)	(\$2,544)	\$102,436	\$127,659
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	2,556	65,091	65,299
Changes in Assets and Liabilities:			
Inventories	21,333	(8,821)	483
Receivables	(33,877)	25,301	(1,420)
Accounts payable	2,838	3,058	410
Accrued wages and leave	(12,830)	(11,718)	(11,525)
Deposits	0	1,814	0
Prepaid expenses	0	(2,025)	(1,649)
Net Cash Provided by Operating Activities	(\$22,524)	\$175,136	\$179,257
Non Cash Activities:			
Correction of Capital Asset Balances	\$7,495	\$176,425	\$78,172

The accompanying notes to financial statements are an  
integral part of this statement.

Airport Fund	Total
\$47,879	\$1,705,945
0	2,899
(57,373)	(1,037,159)
0	(253,936)
(190)	(95,564)
(9,684)	322,185
25,700	25,700
0	(295,656)
0	(94,527)
0	(42,790)
0	2,524
16,016	(82,564)
19,852	1,779,145
\$35,868	\$1,696,581
(\$32,120)	\$195,431
20,090	153,036
2,471	15,466
(354)	(10,350)
229	6,535
0	(36,073)
0	1,814
0	(3,674)
(\$9,684)	\$322,185
(\$44,165)	\$217,927

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Canton consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

A component unit of the City of Canton will have the following characteristics:

1. The voting majority of the unit's board is appointed by the City Council; and,
2. The City Council is able to impose its will on the unit; or
3. The unit has the ability to provide specific financial benefits to or impose specific financial burdens on the City of Canton.
4. The unit will also be considered a component unit if it is fiscally dependent upon the City of Canton.

Even though the Canton Housing and Redevelopment Commission is a separate legal entity, it meets the above criteria and is considered a component unit of the City of Canton.



**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements for Canton Housing and Redevelopment Commission are on file at:

Canton Housing and Redevelopment Commission  
903 West Fifth  
Canton, South Dakota 57013

b. Basis of Presentation:

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund - to account for library contributions, fines and other revenues and related expenditures. This is not a major fund.

**Proprietary Funds:**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Liquor Fund - a fund used to record financial transactions related to liquor operations. This fund is financed by user charges. This is a major fund.

Water Fund - a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer Fund - a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

Airport Fund - a fund used to record financial transaction related to airport operations. This fund is financed by user charges. This is a major fund.

b. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

**Measurement Focus:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of Accounting:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Canton, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are sales tax, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

c. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statement have been eliminated or reclassified, as follows.

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as internal receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "advance to" asset accounts) are equally offset by a fund balance reserve account which indicates

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statement*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2009 balance of governmental activities capital assets includes approximately 10 percent for which the costs were determined by estimates of the original costs. The total December 31, 2009 balance of business-type capital assets includes about

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	ALL	-	-
Buildings	50,000	Straight-line	25-75 years



**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Improvements	25,000	Straight-line	10-30 years
Machinery and Equipment	5,000	Straight-line	5-50 years
Land, an inexhaustible capital asset, is not depreciated.			

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of revenue bonds payable, capital leases payable and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net assets and is displayed in three components:

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net assets held in trust for other purposes.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** - State law limits investments for the City, as discussed above. The City has no investment policy that would further limit investment choices.

As of December 31, 2009 the City had no investments other than certificates of deposit.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City deposits in financial institutions were exposed to custodial credit risk.

**Custodial Credit Risk - Investments** - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk** - The City places no limit on the amount that may be invested in any one issuer. 100 percent of the City's investments are in an external investment pool.

**Interest Rate Risk** - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

**4. INVENTORY**

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale or for supplies in the proprietary funds are recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

*Government-wide Financial Statements:*

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

*Fund Financial Statements:*

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**5. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2009 follows:

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
<b>Governmental Activities:</b>				
Capital Assets				
Not being				
Depreciated				
Land	\$ 304,666	\$ -	\$ 14,500	\$ 290,166
Construction				
In Progress	0	46,489	-	46,489
Totals	\$ 304,666	\$ 46,489	\$ 14,500	\$ 336,655

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	* Additions	* Deletions	Balance 12/31/09
Capital Assets being Depreciated				
Buildings	\$1,966,706	\$ 77,686	\$ -	\$2,044,392
Improvements	626,677	32,905	-	659,582
Equipment	1,577,273	56,001	12,773	1,620,501
Totals	4,170,656	166,592	12,773	4,324,475
Less accumulated Depreciation for:				
Building	440,886	41,834	-	482,720
Improvements	152,041	39,444	-	191,485
Equipment	861,187	96,924	12,773	945,338
Total	1,454,114	178,202	12,773	1,619,543
Total Capital Assets being Depreciated- Net	2,716,542	(11,610)	-	2,704,932
Governmental Activity Capital Assets Net	\$3,021,208	\$ 34,879	\$ 14,500	\$3,041,587

Depreciation expense was charged to functions as follows:

General Government	\$ 17,597
Public Safety	35,586
Public Works	43,538
Culture and Recreation	41,359
	<u>\$138,080</u>

\*2009 changes include \$74,100 of corrections to previously stated amounts. These corrections are based on a comprehensive physical inventory as of December 31, 2009.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	* Additions	* Deletions	Balance 12/31/09
<b>Business-type Activities:</b>				
Capital Assets not being Depreciated:				
Land	\$ 153,216	\$ -	\$ 35,772	\$ 117,444
Construction-in- Progress	-	263,851	-	263,851
Total Capital Assets not being depreciated	153,216	263,851	35,772	381,295
Capital Assets being Depreciated:				
Buildings	140,048	10,876	4,360	146,564
Improvements	5,611,265	408,458	8,729	6,010,994
Equipment	345,614	54,798	-	400,412
Totals	6,096,927	474,132	13,089	6,557,970
Less accumulated Depreciation for:				
Building	57,981	4,653	11,856	50,778
Improvements	2,252,480	342,621	6,584	2,588,517
Equipment	112,630	24,182	24,441	112,371
Total	2,423,091	371,456	42,881	2,751,666
Total Capital Assets Being Depreciated, Net	3,673,836	102,676	(29,792)	3,806,304
Business-type Activity Capital Assets Net	\$3,827,052	\$ 366,527	\$ 5,980	\$4,187,599

\* \$217,927 of these changes were the result of corrections made based on a comprehensive physical inventory as of December 31, 2009.



**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Liquor	\$ 2,556
Water	65,091
Sewer	65,299
Airport	<u>20,090</u>
	<u>\$153,036</u>

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Capital Leases</u>	<u>Compensated Absences</u>	<u>O.P.E.B.</u>	<u>Total</u>
Governmental Activities:				
Debt Payable, January 1, 2009	\$ 9,188	\$ 93,883	\$ -	\$103,071
Increases	-	14,888	7,680	22,568
Decreases	<u>(1,901)</u>	<u>(46,900)</u>	<u>-</u>	<u>(48,801)</u>
Debt payable, December 31, 2009	<u>\$ 7,287</u>	<u>\$ 61,871</u>	<u>\$ 7,680</u>	<u>\$76,838</u>
Due within One Year	<u>\$ 1,901</u>	<u>\$ 30,936</u>	<u>\$ -</u>	<u>\$ 32,837</u>

Business-type Activities:

	<u>Other</u>	<u>Revenue</u>	<u>Absences</u>	<u>Total</u>
Debt Payable, January 1, 2009	\$290,000	\$ 937,218	\$ 32,392	\$1,259,610
Increases	-	-	8,200	8,200

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

	<u>Other</u>	<u>Revenue</u>	<u>Absences</u>	<u>Total</u>
Decreases	<u>\$ (50,000)</u>	<u>\$ (44,527)</u>	<u>\$ (32,604)</u>	<u>\$ (127,131)</u>
Debt payable, December 31, 2009	<u>\$240,000</u>	<u>\$ 892,691</u>	<u>\$ 7,988</u>	<u>\$1,140,679</u>
Due within One Year	<u>\$ 50,000</u>	<u>\$ 46,106</u>	<u>\$ 3,994</u>	<u>\$ 100,100</u>

Debt payable at December 31, 2009 is comprised of the following:

Governmental Activities:

Financing (Capital Acquisition) Leases:

Copier, due in monthly payments of \$192,  
including 4% interest, due in 2013.

Payments are made by the General Fund \$ 7,287

The purchase price at the commencement of the  
financing (capital acquisition) lease was:

Principal	\$ 9,505
Interest	<u>2,015</u>
	<u>\$11,520</u>

Compensated Absences:

Vested sick leave payable, payable as  
used or on termination. Payments to be  
made from the General Fund

\$ 61,871

Other Post Employment Benefits (OPEB):

Estimated future healthcare benefits to  
retired employees (see Note 14)

7,680

Total Governmental Activities

\$ 76,838

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

Business-type Activities:

Drinking Water #1, maturing in 2024 with an interest rate of 3.5%. The payments are made from the Water Fund \$ 405,793

Clean Water #2, maturing in 2024 with an interest rate of 3.5%. The payments are made from the Sewer Fund 486,898

1998 Certificates of Participation, matures 1/01/2019, interest rates of 4% to 5.5%. Retired 1/3 by the Water Fund and 2/3 by the Sewer Fund 240,000

Accrued Leave, payable by the Liquor, Water and Sewer Fund 7,988

Total Business-type Activities \$1,140,679

The annual requirements to amortize all debt outstanding as of December 31, 2009, excluding compensated absences and O.P.E.B. is as follows:

Annual Requirements to Amortize Long-term Debt  
December 31, 2009

**Governmental Activities:**

Year Ending December 31,	<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,901	\$ 403
2011	1,901	403
2012	1,901	403
2013	<u>1,584</u>	<u>336</u>
Total	<u>\$ 7,287</u>	<u>\$ 1,545</u>

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

6. LONG-TERM DEBT (continued)

**Business-type Activities:**

Year Ending December 31,	Certificate of Participation		SRF Loans		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 50,000	\$ 9,930	\$ 46,106	\$ 30,644	\$ 96,106	\$ 40,574
2011	50,000	7,980	47,741	29,008	97,741	36,988
2012	55,000	5,880	49,434	27,315	104,434	33,195
2013	85,000	3,570	51,187	25,562	136,187	29,132
2014	-	-	53,003	23,747	53,003	23,747
2015-2019	-	-	294,575	89,173	294,575	89,173
2020-2024	-	-	350,645	33,105	350,645	33,105
Total	<u>\$240,000</u>	<u>\$27,360</u>	<u>\$ 892,691</u>	<u>\$258,554</u>	<u>\$1,132,691</u>	<u>\$285,914</u>

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2009 the City managed its risk as follows:

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial carrier. The policy carries a \$500 deductible. Settled claims resulting from these risks have not exceeded the coverage over the past three years.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the SDPPA provides that the above coverage's will be provided to a \$5,000,000 limit. Member premiums are used by the Pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's first full year	50%
End of the City's second full year	60%
End of the City's third full year	70%
End of the City's fourth full year	80%
End of the City's fifth full year	90%
End of the City's sixth full year and thereafter	100%

As of December 31, 2009, the City has a vested balance in the cumulative reserve fund of \$67,416.

The City carries a \$500 deductible for official's liability coverage and \$2,000 law enforcement liabilities.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

8. RISK MANAGEMENT (continued)

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Unemployment Benefits:

The City provides coverage for claims for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

9. RETIREMENT PLAN

All employees, except firemen, part-time or seasonal, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

General employees are required by state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008 and 2007 were \$55,680 \$49,917, and \$47,582 respectively, equal to the required contribution.

**CITY OF CANTON  
NOTES TO FINANCIAL STATEMENTS**

10. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes on the Statement of Net Assets:

<u>Restriction</u>	<u>Restricted by</u>	<u>Amount</u>
Debt Service	Debt covenants	\$ 44,500
Insurance	Contract agreement	<u>67,416</u>
		<u>\$111,916</u>

11. INTERFUND TRANSFERS

During 2009 the City transferred \$25,700 from the General Fund to the Airport Fund to subsidize its operations.

12. RELATED ORGANIZATIONS

The City of Canton's library benefits from gifts from the "Canton City Library Foundation, Inc.," a non-profit corporation.

The City of Canton received a donation of a building from the "Canton Depot Foundation, Inc." valued at approximately \$172,000. The City continues to receive the benefit of on going maintenance of this building fro the "Canton Depot Foundation, Inc."

GASB Statement No. 39 requirements to report these entities as component units do not apply because:

- a. The economic resources received and held by the two "Foundations" are not necessarily held for the direct benefit of the City and may be directed elsewhere at the discretion of the directors.
- b. The City does not have the ability to access the economic resources owned by the "Foundations".
- c. Any resources received by the City from these entities are not significant.



**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

13. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$485,792 in water system revenue bonds issued in 1998 and 2005. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 80% of net revenues. The total principal and interest remaining to be paid on the bonds is \$608,440. Principal and interest paid for the current year and total customer net revenue were \$55,078 and \$167,527, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$646,899 in sewer system revenue bonds issued in 1998 and 2005. Proceeds from the bonds provided financing for the construction of sewer system improvements.

The bonds are payable solely from sewer customer net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$810,165. Principal and interest paid for the current year and the total customer net revenues were \$82,239 and \$192,958, respectively.

14. POST EMPLOYMENT BENEFITS

Plan Description:

The City of Canton's Postemployment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouses. The Plan is authorized by SDCL 6-1-16 and is administered by the City of Canton. The Plan does not issue a stand-alone financial report.

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

14. POST EMPLOYMENT BENEFITS (continued)

Funding Policy:

The contributions of plan members and the City are established by City policy. The required contribution is based on projected "pay-as-you-go" financing requirements, with an additional amount to prefund benefits as determined annually by the City. For 2009, the required contribution to the Plan was \$7,680. Since no contribution was made in 2009, the City accrued a liability of \$7,680, as of December 31, 2009.

Annual OPEB cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfounded actuarial liability over a period not to exceed thirty years.

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the City's net OPEB obligation to the Plan.

Annual required contribution	\$7,680
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB Cost	7,680
Contribution made	<u>-</u>
Increase in net OPEB obligation	7,680
Net OPEB Obligation, beginning of year	<u>-</u>
Net OPEB Obligation, end of year	<u>\$7,680</u>

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

14. POST EMPLOYMENT BENEFITS (continued)

The City's annual OPEB cost is \$7,680 for 2009, of which the pay-as-you-go cost was 44.7% or \$3,433.

Funded Status:

The Plan is on a "pay-as-you-go" basis, therefore it is not funded as of December 31, 2009.

Funded Status and Funding Progress

	Valuation Date January 1, 2009
Actuarial Accrued Liability (AAL)	\$ 57,783
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	57,783
Funded Ratio	0.00%
Covered Payroll (active plan members)	1,238,601
UAAL as a Percentage of Covered Payroll	4.67%

Actuarial Assumptions:

The December 31, 2009 actuarial valuation was compiled using the "projected unit credit" actuarial cost method. The assumptions included a 5% rate of return (net of administrative expenses) and an annual health-care cost trend of 10% initially, grading to 5% over 10 years. The amortization period of the unfounded liability is 30 years.

15. CONSTRUCTION IN PROGRESS

Projects in progress as of December 31, 2009 were as follows:

**CITY OF CANTON**  
**NOTES TO FINANCIAL STATEMENTS**

15. CONSTRUCTION IN PROGRESS (continued)

<u>Project Name</u>	<u>Authorized Total</u>	<u>Spent through December 31, 2009</u>	<u>Committed</u>	<u>Future Debt Needed</u>
Depot Renovation	<u>\$3350,000</u>	<u>\$ 46,489</u>	<u>\$ 283,511</u>	<u>\$</u>
	<u>=</u>			
Sewer Lagoon	<u>\$3,180,000</u>	<u>\$263,851</u>	<u>\$2,916,149</u>	<u>\$2,462,000</u>

The Sewer Lagoon project has also been approved for a \$840,500 Federal "Stimulus" Grant which will come in the form of debt principal forgiveness.

16. SUBSEQUENT EVENTS

Since December 31, 2009, the City has borrowed \$2,462,000 of sewer revenue bonds from the State Revolving Fund (SRF). The proceeds will be used to finance the Sewer Lagoon Project as noted above and is expected to be repaid partially (\$840,500) by a federal grant.

**CITY OF CANTON**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGETARY BASIS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$1,068,000	\$1,068,000	\$1,049,604
General sales and use taxes	800,000	800,000	733,026
Licenses and permits	19,050	19,050	10,334
Intergovernmental Revenue			
Federal grants	2,000	2,000	1,473
State shared revenue	86,000	86,000	81,443
County shared revenue	17,750	17,750	10,015
Charges for Goods and Services			
General government	116,650	116,650	120,930
Public safety	3,300	3,300	2,676
Highways and streets	16,650	16,650	14,246
Sanitation	11,500	11,500	13,002
Health	500	500	475
Culture and recreation	30,250	30,250	28,568
Fines and Forfeits			
Court fines	1,000	1,000	1,092
Miscellaneous Revenue			
Investment earnings	100,000	100,000	38,885
Special investments	0	0	1,103
Contributions	600	600	2,705
Other	6,500	6,500	10,618
Total Revenue	\$2,279,750	\$2,279,750	\$2,120,195

The accompanying notes to required supplemental information are an  
integral part of this schedule.

Variance  
Final Budget-  
Positive  
(Negative)

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(\$18,396)

(66,974)

(8,716)

(527)

(4,557)

(7,735)

4,280

(624)

(2,404)

1,502

(25)

(1,682)

92

(61,115)

1,103

2,105

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4,118

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(\$159,555)

**CITY OF CANTON**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGETARY BASIS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
<b>EXPENDITURES</b>			
<b>General Government</b>			
Legislative	\$29,000	\$35,400	\$20,310
Execution	107,200	121,600	94,317
Elections	3,350	3,350	1,422
Financial administration	284,300	301,700	236,997
Other	53,300	96,800	75,665
<b>Public Safety</b>			
Police	367,255	373,755	344,933
Fire	68,550	68,550	49,201
<b>Public Works</b>			
Highways and streets	614,150	620,150	464,679
Sanitation	52,250	63,250	55,475
<b>Health and Welfare</b>			
Health	36,750	36,750	30,556
<b>Culture and Recreation</b>			
Recreation	120,100	120,100	101,313
Parks	167,250	170,250	110,842
Libraries	163,075	163,075	145,355
<b>Conservation and Development</b>			
Economic development	52,250	53,250	51,547
<b>Debt Service</b>	<u>2,500</u>	<u>2,500</u>	<u>2,403</u>
<b>Total Expenditures</b>	<u>\$2,121,280</u>	<u>\$2,230,480</u>	<u>\$1,785,015</u>

The accompanying notes to required supplemental information are an  
integral part of this schedule.

Variance  
Final Budget-  
Positive  
(Negative)

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\$15,090

27,283

1,928

64,703

21,135

28,822

19,349

155,471

7,775

6,194

18,787

59,408

17,720

1,703

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97

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\$445,465

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**CITY OF CANTON**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGETARY BASIS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
Excess of Revenue over (under)			
Expenditures	<u>\$158,470</u>	<u>\$49,270</u>	<u>\$335,180</u>
Other Financing Sources (Uses)			
Transfers-out	<u>(25,700)</u>	<u>(25,700)</u>	<u>(25,700)</u>
Total Other Financing Sources (Uses)	<u>(25,700)</u>	<u>(25,700)</u>	<u>(25,700)</u>
Net Change in Fund Balances	132,770	23,570	309,480
FUND BALANCE-Beginning	<u>1,834,484</u>	<u>1,834,484</u>	<u>1,834,484</u>
Total Expenditures	<u>\$1,967,254</u>	<u>\$1,858,054</u>	<u>\$2,143,964</u>

The accompanying notes to required supplemental information are an  
integral part of this schedule.

Variance  
Final Budget-  
Positive  
(Negative)

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\$285,910

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0

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0

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285,910

0

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\$285,910

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**CITY OF CANTON**  
**NOTED TO REQUIRED SUPPLEMENTARY INFORMATION**

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP), except for capital outlay expenditures. For budgetary purposes, capital outlay expenditures are reported as a departmental expenditure. For GAAP purposes, capital outlays are reported as a separate line item.

**CITY OF CANTON**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**

FINDING NUMBER 2007-01 and 2008-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1989.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.

**CITY OF CANTON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

**FINDING NUMBER 2009-01:**

**CONDITION FOUND:**

A lack of proper segregation of duties is the present situation in the City's accounting department.

**CRITERIA:**

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

**CAUSE AND EFFECT:**

Management of the City has determined the present size of the staff in the Finance Department. The effect of this decision precludes an adequate segregation of duties.

**RECOMMENDATION:**

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

**CITY RESPONSE:**

The City agrees with this finding, but believes that the cost of hiring additional staff to segregate the duties exceeds the benefits to be derived from such action. Management intends to maintain a constant awareness of this weakness and will study each person's duties to ascertain where mitigating controls may be implemented.